BC SYSTEMS

CORPORATION

ANNUAL REPORT 1988-1989

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LETTER OF TRANSMITTAL

HONOURABLE CLIFF MICHAEL

The Honourable David C. Lam
Lieutenant-Governor of British Columbia

May it please your Honour:

Herewith I respectfully submit the Annual Report of the British Columbia Systems Corporation for the fiscal year ended March 31, 1989.

Honourable Cliff Michael
Minister Responsible

BOARD OF DIRECTORS

G.J. HOOK
Geoffrey J. Hook
Consulting Services
Victoria, B.C.
Chairman of the Board

D.M. BUCHANAN
Penticton, B.C.
Director

W.E. EVANS
President & Chief Executive Officer
British Columbia
Systems Corporation
Victoria, B.C.
Director

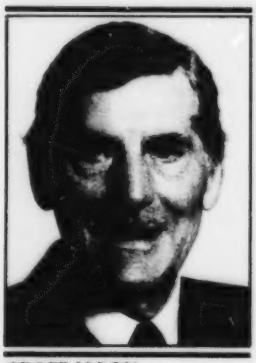
M.J. FALKINS
Senior Vice President
Falkins McIntosh, Reed Stenhouse
Victoria, B.C.
Director & Chairman,
Compensation Committee

R.J. GAYTON
Chief Financial Officer
Prime Resources Corporation
Vancouver, B.C.
Director & Chairman,
Audit Committee

R.G. HOOD
Salmon Arm, B.C.
Director

HON. C.C. MICHAEL
Minister of Government
Management Services
Province of British Columbia
Victoria, B.C.
Director & Minister Responsible

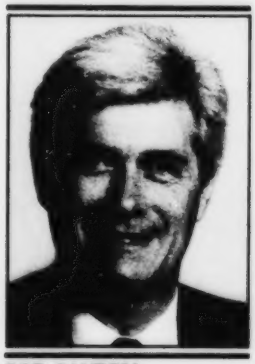
C.D. SLADE
Senior Vice President
British Columbia
Systems Corporation
Victoria, B.C.
Secretary to the Board


GEOFF HOOK

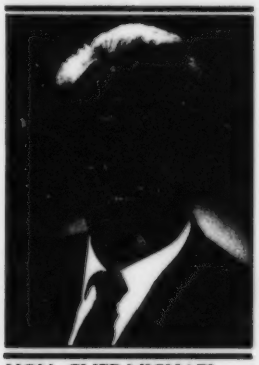
DON BUCHANAN

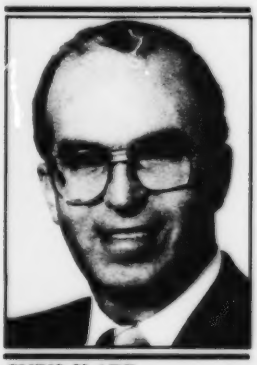
TED EVANS

MIKE FALKINS


BOB GAYTON

RON HOOD


HON. CLIFF MICHAEL


CHRIS SLADE

EXECUTIVE COMMITTEE

W.E. EVANS
President and Chief Executive Officer

N.E. GLASSEL
Senior Vice President
Client Services and Corporate Planning

C.D. SLADE
Senior Vice President
Data Processing Services

G.F. GABEL
Vice President
Telecommunications Services

Dr. R.N. GREER
Vice President
Client Services and Human Resources

J.G. HAYES
Executive Director
Finance and Administration

TED EVANS

NORM GLASSEL

CHRIS SLADE

GERRY GABEL

NANCY GREER

GARRY HAYES

CHAIRMAN'S REPORT

BC Systems' overall aim is to serve the British Columbia public sector. It is clear to us that if we are to accomplish this fundamental mission, we must get even closer to our clients, to develop a better understanding of their business so we can respond effectively to their needs.

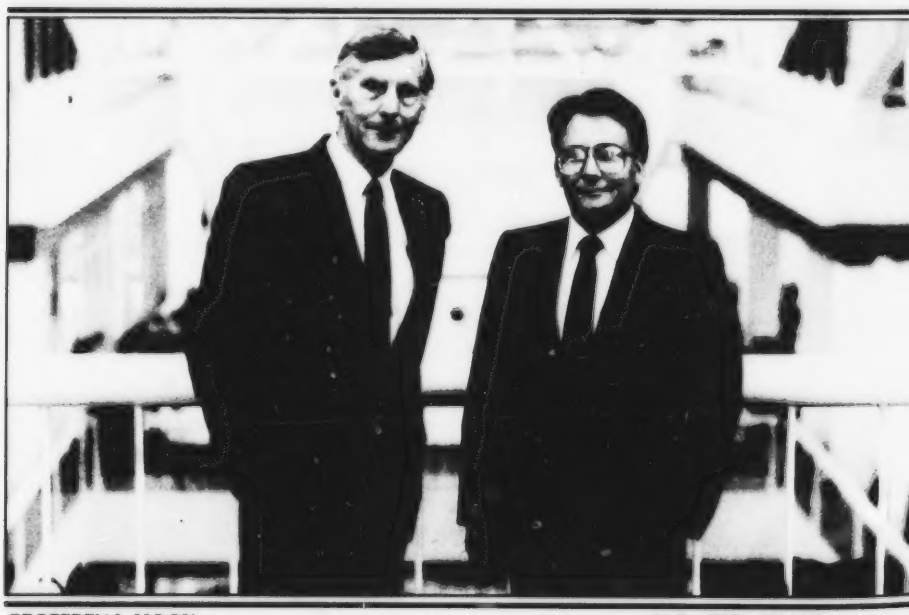
The Board of Directors, in identifying and embracing this direction, has the job of ensuring that the future policies and plans of the Corporation continue to be up to the challenge.

We are fortunate that the Corporation and its staff have developed the capability and competence to address the challenges presented to us in the rapidly changing worlds of technology and information systems.

Now that the status of the Corporation has been resolved by the shareholder, the government of British Columbia, we can look forward to long-term stability as a Crown Corporation. We acknowledge the support we have had from our shareholder in all our endeavours to carry out our mission.

The Board especially wishes to express its thanks to all staff and management for their support and cooperation in the past year. They made the difference.

G.J. Hook
Chairman of the Board



GEOFFREY J. HOOK W.E. (TED) EVANS

PRESIDENT'S REPORT

I am pleased to report that BC Systems has had another very successful year. In the financial area, we exceeded our profit and debt reduction targets, and improved our financial ratios.

Shared processing business volumes were up over 20% from the previous year. Innovative pricing measures were developed for introduction in 1989/90, and new technical advisory groups were established to allow users to have direct input to product/service delivery issues.

In the data communications area, business volumes were up 47%. The organizational merger of voice and data communication functions was successfully completed and a new billing system introduced for voice services. Another major event was the purchase of over 14,000 telephones, which will ultimately save the government $1 million annually.

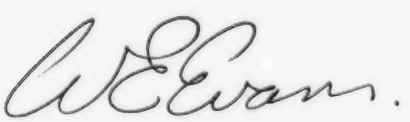
Even with this rapid growth in 1989/90, BC Systems was able to upgrade and keep current all its shared processing and telecommunications facilities.

We signed a $1.5 million contract in 1988/89 to administer the exciting new BC OnLine program on behalf of the Ministry of Government Management Services. Under this program, the business community will be able to access certain government data bases (such as Land Titles) electronically from their own offices.

Professional services for Ministry information systems branches grew significantly during the year, proving that this continues to be a valuable service to our clients.

In line with our claim that "people are our #1 resource", we made significant progress in the human resources area, particularly in performance management and staff training and development. We also negotiated an innovative collective agreement that demonstrates the positive labour relations climate at BC Systems.

Further details on these matters are provided in the report on operations. 1988/89 was a very challenging but rewarding year for us all at BC Systems. I must salute the efforts of our employees. Once again they have demonstrated the very highest standard of professional performance.



W. E. Evans
President

CORPORATE PROFILE

MISSION

Our mission is to use our information technology skills and capabilities to assist our clients in fundamentally improving the way government serves the public.

In doing so, we:

- are driven first by our clients' needs, and second by technology
- capitalize on the excellence of our people, data processing environments and networks
- focus on innovations that make a real difference
- aim to be a major player in developing the best possible information infrastructure for British Columbia.

In the past we have been largely technology driven, introducing new products and services as these were developed by the industry. While technological currency will continue to be a vital goal in the future, it is increasingly important that we get even closer to our clients. We must understand their objectives and business strategies so that we can tailor our capabilities to their needs.

BC Systems began this change in orientation in 1988/89, and it will be our major push for the future.

PRODUCTS AND SERVICES

The main BC Systems shared computer processing complex provides a leading-edge, highly reliable, low-risk source of computing power for clients across the province. We provide uninterruptible power, back-up equipment, and comprehensive data and physical security. Use of shared processing frees our clients from the concerns of acquiring, maintaining, supporting and upgrading complex equipment of their own.

BC Systems telecommunications services include both data and voice networks. Through telecommunications, we link over 100 cities and towns throughout the province, with over 35,000 telephone locations and more than 14,000 computer terminals.

Professional services are a major part of our business as well. Over 250 of our highly-skilled professionals provide computer system management and technical expertise right at client locations.

Our innovative information access services provide authorized public users with easy access to government information.

CLIENT SERVICES

At BC Systems, serving our clients is our number one objective. We aim to listen to their needs, respond quickly and keep them well informed. To improve the way we do this, we expanded our client support staff in 1988/89.

We are always looking for new ways to share information with our clients and the data processing community. In 1988/89, for example:

- We held a very successful Executive Forum, where four experts from across North America addressed local executives on data processing trends and opportunities.
- We introduced electronic bulletin boards as an additional form of communication for PROFS electronic mail users.
- We launched a Developers' Advisory Council, to open a two-way channel of communication with the private sector people who build computer systems for our clients.
- We continued to produce our "Products & Services News" newsletter, increase the availability of on-line reference material, provide our facilities for vendor product shows, and maintain user group advisory and review committees.

Client communication is an integral part of the BC Systems' service. Over 150 local executives, pictured above, were hosted to a half-day forum on industry trends and opportunities. Seasoned professionals such as George Hopkins, Executive Vice President of Corporate Electronic Banking Services with the Bank of Montreal, pictured left, shared their expertise with the audience.

Our Customer Service Centre, the first line of problem solvers for most customers, was revamped to handle the huge increase in users, who now include all government phone users and all doctors' offices in the province (see later section on Teleplan). The Centre now handles more than 12,000 calls a month, resolving over 70% of problems without referral to another area of the Corporation.

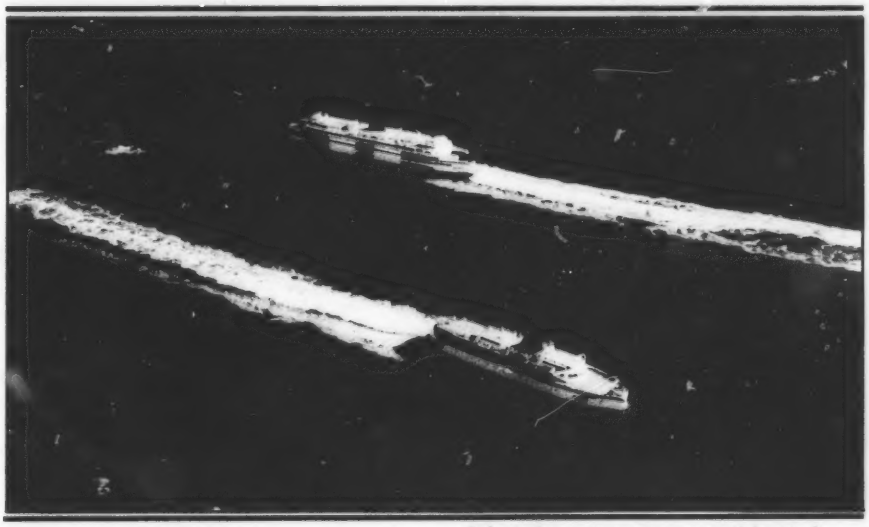
OPERATIONS

CLIENT APPLICATIONS

1988/89 saw a number of new and exciting information systems developed and implemented. BC Systems is pleased to have assisted our clients in a variety of ways. A few highlights follow.

AGRICULTURE & FISHERIES

The Ministry of Agriculture & Fisheries developed a ministry-wide information systems plan that included electronic mail, province-wide data communications and new information applications. They chose BC Systems' shared VAX processor and DNET network services for this. By March over 100 ministry employees, at 18 locations around the province, had been linked into BC Systems' ALL-IN-1 service. BC Systems' Education Services group, working with private sector training firms, helped the ministry organize and implement a six-month education program, designed to provide over 1,000 student-days of training in the new technologies.



Information systems are an essential part of operations management for BC Ferries.

BC FERRIES

In September 1988 the BC Ferry Corporation signed a three year contract with BC Systems which includes VM processing, SNA and DNET network services, education, FM services and professional consulting. Ferries' information systems applications will include systems for accounting, electronic mail, reservation systems expansion, personnel and payroll, supplies inventory, catering/food services and ferry and dock design.

Eighteen Agriculture & Fisheries offices across the province can now electronically communicate and share information, thanks to BC Systems' ALL-IN-1 service. Above, Ministry employees try out the service at their new training facility.

CANCER CONTROL MAMMOGRAPHY

The Breast Screening Mammography Program of British Columbia enables women in B.C. to be screened for the early detection of breast cancer. The advantages of early detection are that cancers have the potential for cure and that more conservative treatment is possible. By the end of 1989, the Screening Mammography Program of British Columbia hopes to have four fixed clinics and a mobile service operating. It is planned to establish 15-20 clinics throughout the province including a mobile service in some areas. BC Systems is providing VAX processing to collect and analyze data as well as automating some of the clerical functions of the program. Processing services are delivered to each clinic through the DNET communications network. The Cancer Control Agency projects that the program could save as many as 120 lives annually when made available throughout British Columbia.

CORRESPONDENCE AND DISTANCE LEARNING

Correspondence and distance learning for the Ministry of Education was made easier this year with the use of BC Systems data processing services. Regional Correspondence schools in Fort St. John, Prince George, Terrace and Saanich use the system to keep track of all correspondence students' records and course inventory. The recording of student marks automatically triggers the ordering of the next set of materials for shipment to the students. With this system, statistical reports on student progress and course, school or district enrolment are readily available and easily maintained.

The Johnson children, pictured above, know that their next home study lesson is on its way. With BC Systems' support, students automatically receive course materials on the basis of study progress.

Through BC Systems processing, the Cancer Control Agency collects and analyzes data for the early detection of breast cancer. This program is projected to save up to 120 lives annually.

GMS FACILITIES MANAGEMENT

The Information Systems Branch of the Ministry of Government Management Services provides data processing services to over 900 users.

Government employee information for 40 public sector organizations became electronically accessible and easy to update last year through the Government Telephone Directory System. Pictured above, users compare the old card procedure (right) to the new on-line automated features.

Their Wang facilities include 15 processors that provide word processing, electronic mail and application services. To consolidate the support of the complex operational environment, the Ministry tendered the facilities management of its Wang systems. BC Systems partnered with MYRA Systems Corp., a Victoria-based consulting firm, to create a successful response to the Ministry's request. This joint public-private sector solution will provide the Ministry with a comprehensive facilities management service, staffed with skilled resources from both BC Systems and MYRA.

LIQUOR DISTRIBUTION

The Liquor Distribution Branch uses BC Systems shared mainframe and network services to automate their purchasing, distribution, retailing and accounting functions. A new system, currently under development, will connect the 216 government liquor stores to the Head Office systems. The system will provide automated support for the retail stores and allow the transmission of accounting and operating data to and from the stores.

GOVERNMENT TELEPHONE DIRECTORY SYSTEM

Working with representatives from all the government ministries, BC Systems developed and implemented the Government Telephone directory System (GTDS) in July, 1988. GTDS is an interactive computer application that lets authorized users access and update a central directory data base. The data base contains information on 40 government organizations and their employees (name, title, phone number and work address). It is kept

Through BC Systems shared mainframe and network services, Liquor Distribution stores across the province will soon transmit orders, price changes and stock levels automatically through the system being tested here at the Vancouver Head Office.

current by Telephone Data Administrators in each of the ministries.

TELEPLAN

One of the most exciting new applications in which we were involved during 1988/89 was Teleplan.

Through Teleplan, over 41 million Medical Service Plan claims will be transmitted annually to the BC Systems mainframe directly from doctors' offices across British Columbia.

This BC Ministry of Health system facilitates electronic submission of claims via personal computers in doctors' offices to the BC Medical Services Plan (MSP). In addition to speeding up claims submission, the system also allows doctors throughout the province to check patient eligibility within the MSP, directly on-line or overnight. Other benefits are that enquiries can be answered and payments made more quickly, and errors are greatly reduced.

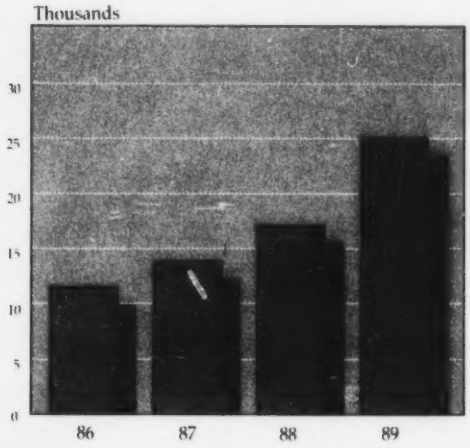
PENSION INFORMATION AND PAYMENTS

The Superannuation Commission issues pension cheques to over 45,000 pensioners who are former teachers, hospital workers, municipal employees and employees of government and crown corporations. During 1988, a new Pension Information and Payments System (PIPS) was developed and implemented using BC Systems' shared MVS processor. This interactive data base system enables the Commission to provide improved service to its clients by providing Pensioner Services staff with rapid access to pension status information. PIPS also generates all the Commission's pensioner payments.

Over 45,000 pensioned public employees can receive easily-accessed pension information thanks to the interactive data base system.

Up to 5,000 trucks a week pass through this weigh scale on the Alex Fraser Bridge. Each one of them is checked for driver and vehicle licensing, inspection information and carrier authority through the use of BC Systems' network.

SHARED PROCESSING GROWTH
NUMBER OF USERS AT YEAR END



In our computer control centre, capacity, volume and performance are monitored around the clock to ensure consistent efficient service to our clients.

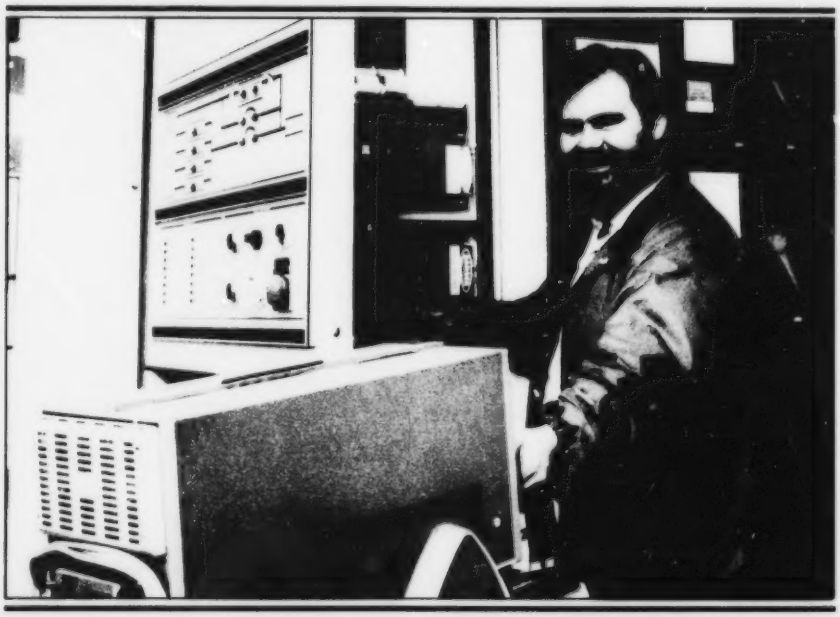
PRODUCTS AND SERVICES

SHARED PROCESSING

BC Systems shared processing services continued to grow at an increasing rate during the year. We introduced a variety of new products, and improved many existing ones. Highlights in this area included:

- a new users' group for application developers
- enhancements to the TSO interactive computing service
- improvements to DB2, our new mainstream relational data base system now in use in a number of production applications
- introduction of CSP, a new programming language
- new personnel and word processing systems for our VAX users
- new complex printing functions
- integration of our multi-system government electronic mail system (there are now more than 10,000 electronic mail users within the government, an increase of more than 60% in one year).

We invested more than $10 million in our data centres, to upgrade the



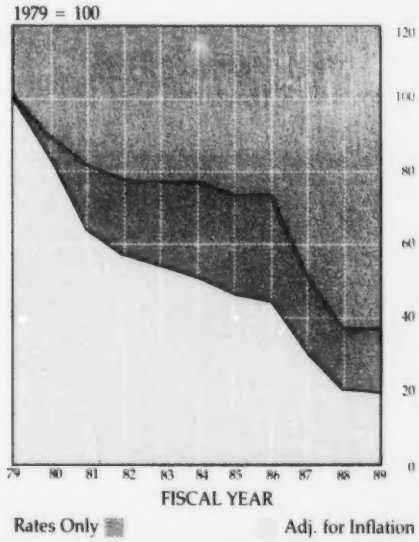
One of the many benefits of BC Systems processing is our uninterruptible power supply. The equipment pictured here guarantees non-stop service for all our shared processing clients.

processors and disk storage systems for our three major shared services - MVS, VM and VAX.

We continued our efforts to improve data centre operations and drive down costs, using our new master control centre, automated tape cartridge loading and new software to automate operations. These efficiencies and increasing scale economies resulted in approval of price cuts of 10-15% in most processing services for next fiscal year.

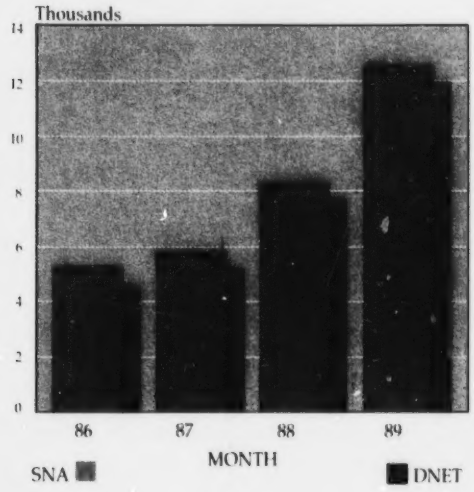
Our great diversity of clients (we now have almost 25,000 accounts on our shared processors) means that the only way we can ultimately serve everyone's needs is to be available for any work at any time. To this end, we eliminated several scheduled service interruptions and introduced much more stringent performance standards for the response time of on-line and interactive systems. Our long-term goal is to have continuous operation 24 hours per day, 7 days per week.

SHARED MAINFRAME PROCESSING PRICES RELATIVE TO 1979 BASE



In our data centre, we have over 45,000 tape cassettes in storage. These data files are requested any time of the day from anywhere in the province. One cassette will hold the equivalent of 55,500 typed pages of information.

DATA NETWORK GROWTH
TERMINALS AT YEAR END



TELECOMMUNICATIONS SERVICES

1988/89 was a year of continued high demand for telecommunications services.

The SNA network added almost 3,000 terminals, a 41% increase. There are now almost 10,000 terminals attached to 15 IBM-type host processors. We established connections with several new ministry machines and some major suppliers, and we added new hardware to provide more speed and capacity.

The DNET network, with a smaller base, grew at 72%, adding about 1,400 terminals and 800 host ports. It now links over 3,000 terminals and about 80 smaller host computers from various manufacturers. DNET's growth has been significant in the B.C. Interior with such clients as the Ministries of the Attorney General, Solicitor General, Environment, Regional Development and Forests.

demand, an average of 18 terminals a day were installed during 1988/89. In spite of the high growth rate, an average prime-time reliability record of above 99.6% was maintained for both data networks.

1988/89 was BC Systems' first full year with management responsibility for PROVNET, the government's voice network. Major achievements included:

- development of a more equitable and rational flat-rate chargeback system
- a new application to better manage inventory, order processing and chargeback while giving clients understandable, meaningful billing details
- purchase of over 14,000 leased phones to significantly reduce costs to government
- a network analysis and modelling exercise to identify areas for future savings through better management.

In response to demand for larger and more complex installation projects, BC Systems introduced a building cabling systems service in 1988/89. Built on experience in wiring buildings for

This digital radio tower is just one of the many pieces of equipment that carry our networks.

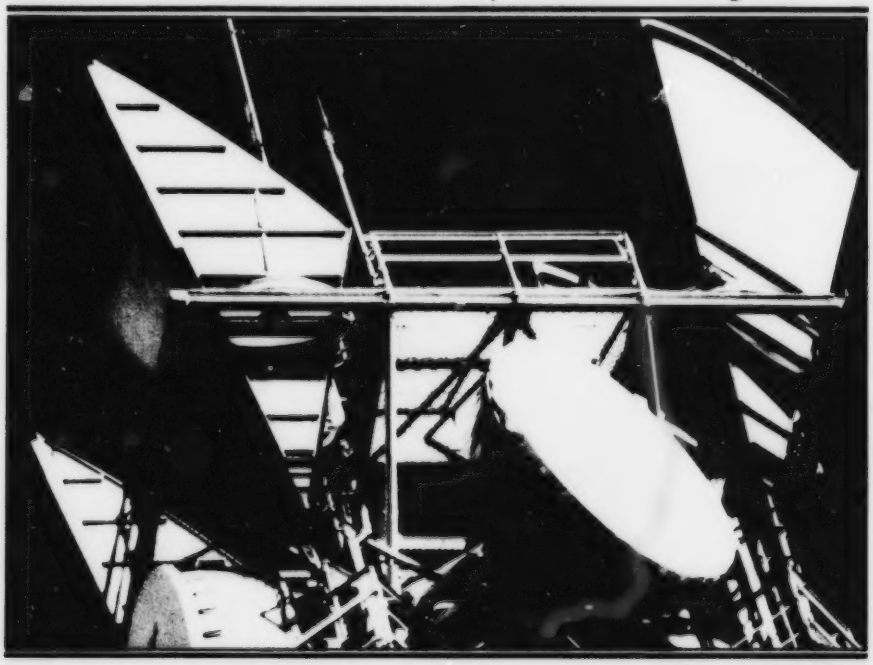


photo courtesy of BC Tel.

BC Systems staff monitor and maintain telecommunication networks across the province 24 hours a day to provide effective client support.

the Ministries of Forests, Regional Development and Agriculture & Fisheries, this service offers clients efficient cabling systems that avoid obsolescence and reduce the expense of moving equipment.

PROFESSIONAL CONSULTING

BC Systems offers a variety of professional services in support of clients' information processing needs.

Continued growth was experienced in our Information Systems Branch (ISB) staffing service, which provides management and technical staff to clients to work at their sites on a long-term secondment basis.

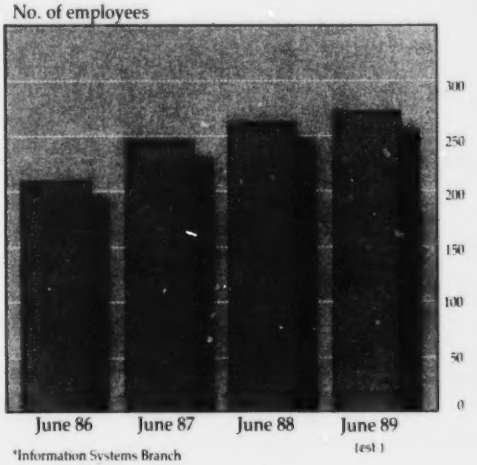
The Corporation's Education Services offerings also continued to be very popular. Client education days grew to over 4,000 in 1988/89. BC Systems' primary role involves marketing and administration, while actual course instruction is provided by private sector firms under contractual arrangements with BC Systems. In addition to traditional classroom instruction, BC Systems course offerings include computer-based training (CBT), audio and video tapes, and interactive video instruction (IVI) using computer-controlled videodiscs.

Facilities Management (FM) services are used by our clients to help them manage and support their in-house computer systems. The service allows clients to share the knowledge and experience of technical staff available within the Corporation. During 1988/89, BC Systems continued to provide FM services for clients' IBM, Wang and Digital computers on client sites.

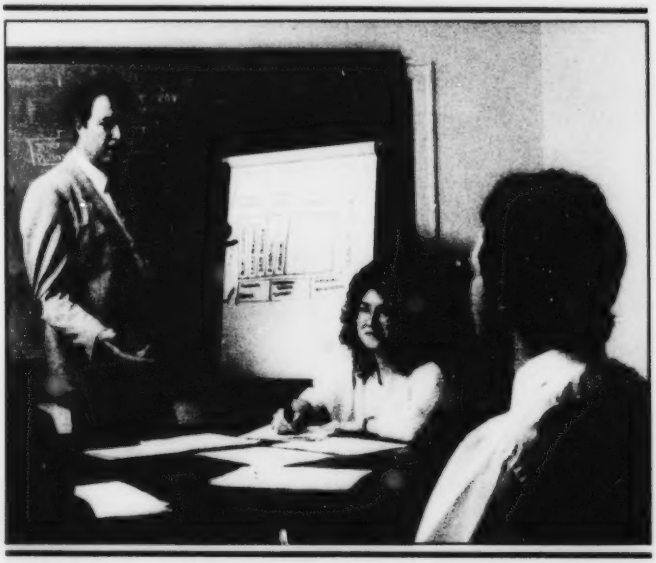
The Database Management Systems (DBMS) Support service continued to do well in 1988/89. Under this service, BC Systems assumes full technical responsibility for management of client databases residing on the shared IBM MVS and VM systems. Most clients with major databases have signed support contracts with BC Systems.

As well, BC Systems continued to provide other specialized professional services including equipment installation, security analysis, and consulting in a variety of technical areas.

PROFESSIONAL SERVICES GROWTH
MINISTRY ISB* STAFFING



*Information Systems Branch



BC Systems has over 250 highly-skilled professionals providing computer system management and technical expertise at client locations.

INFORMATION ACCESS

■ **BC OnLine**

BC OnLine, a system which provides authorized public users with electronic access to government information, was created in 1988/89. BC Systems played a vital role in this major innovation for government. We were contracted by the Ministry of Government Management Services to develop and operate the BC OnLine service. With its release in July 1989, BC OnLine will provide lawyers, realtors, financial institutions and other businesses with the opportunity to have immediate access to s Government Registry databas

■ **Touchscreen Applications**

Touch sensitive screens allow u access stored information wit using a keyboard. In 1988/89 Systems added a module to t touchscreen system for the Fri the Provincial Museum, deve conference system for the International Medical Informa Symposium for the University Victoria, and added two new modules, "Quick Facts on BC "Canada at a Glance", to the touchscreen system for the Mi Advanced Education and Job Training.

Regardless of skill level, touchscreen com information at the finger tips of the young alike. This touchscreen, located at the Ro Columbia Museum in Victoria, is a gu heritage locations in the area.

EMPLOYEES – OUR KEY RESOURCE

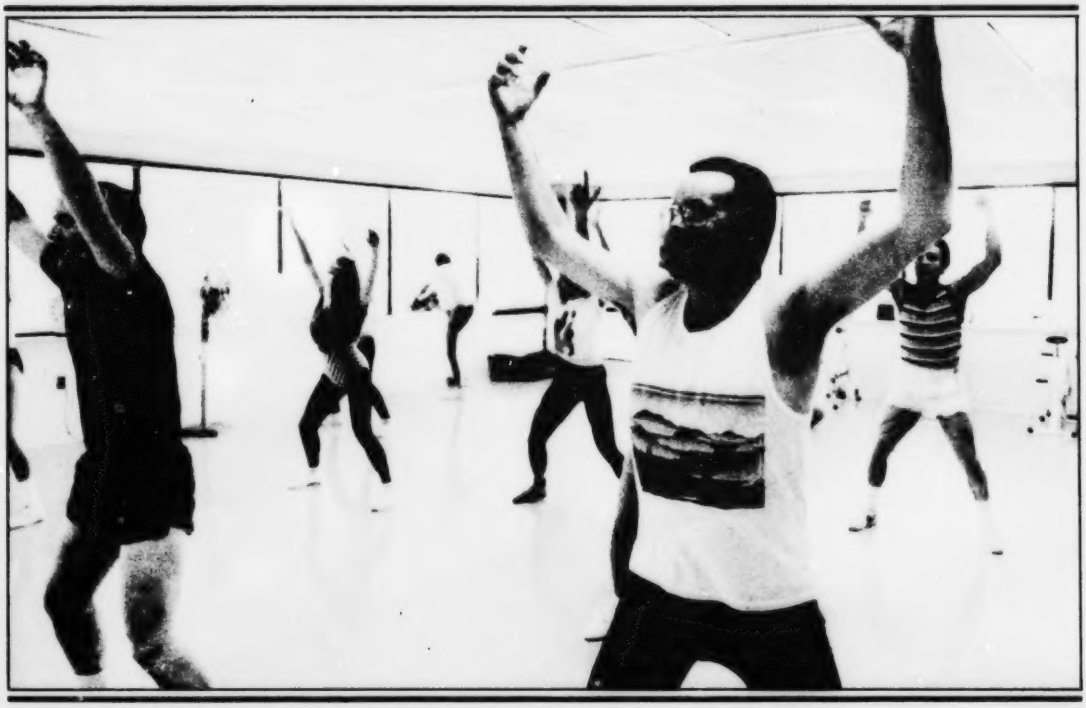
Our employees are the key to our success. Their skills, training and motivation are absolutely critical, and so we work very hard to make BC Systems a rewarding place to work. For example, in addition to those activities pictured here, we:

- invest in our own employees by providing a structured, comprehensive staff training and development program based on individual training needs
- provide a communication system supported by electronic mail that allows for regular, immediate and frequent delivery of information to staff
- recognize employee contributions, both day-to-day and through our peer recognition program which acknowledges efforts above and beyond the call of duty

- publish a staff newsletter, produced by employees, which reports corporate activities, special events and employee highlights and accomplishments.
- offer long-service recognition for employees retiring and those achieving 10 and 25 years of government service
- offer a Lunch n' Learn program that brings employees together to hear about topics from gardening and photography to budgeting and investing.

The Corporation and its employees provide support for a number of community relations programs including the United Way, Red Cross Blood Donor Clinics, Food Banks, Operation Track Shoes, the BC Lions Society for Crippled Children, Dental Hygienists Association and Disabled Skiers. Our employees care!

Employee orientation introduces our corporate philosophy, standards, activities and practices to new staff.

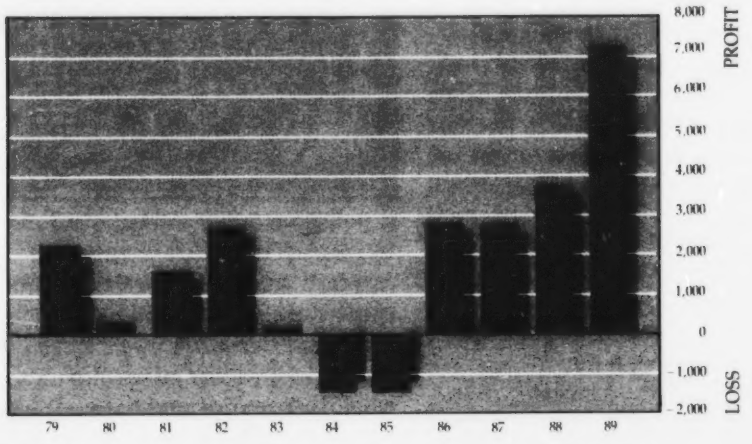


Our employee fitness centre boasts a 30% employee participation rate. Research shows that personal health and well-being contribute to reduced absenteeism and medical expenses while improving productivity and employee morale.

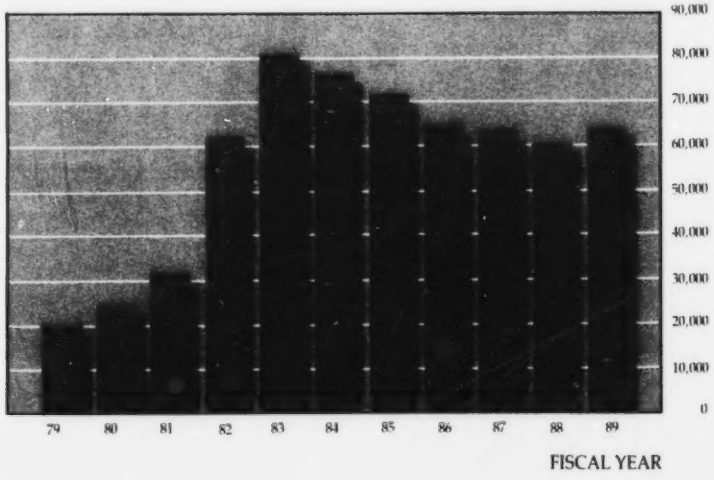
CORPORATE PERFORMANCE

NET INCOME 1978/79 – 1988/89 ($000's)

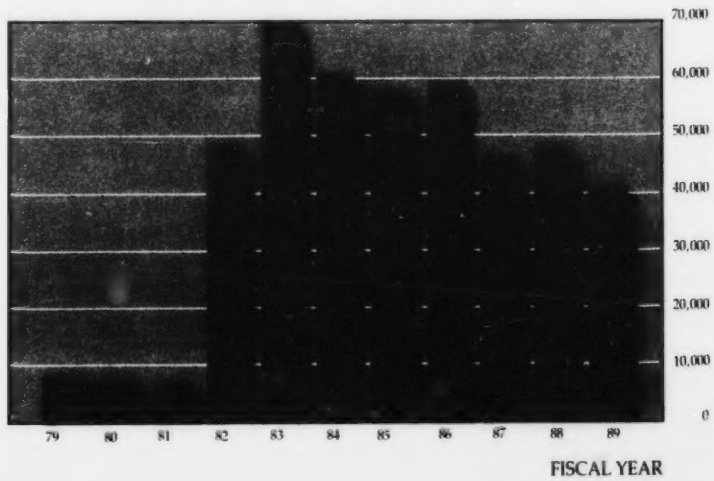
1988/89 net income of $770,000 includes a $6.5 million building writedown.
Unadjusted operating income is $7.2 million.



TOTAL ASSETS 1978/79 – 1988/89 ($000's)



TOTAL DEBT 1978/79 – 1988/89 ($000's)



AUDITORS' REPORT

The Honourable Cliff Michael
Minister of Government Management Services
Province of British Columbia

We have examined the balance sheet of British Columbia Systems Corporation as at March 31, 1989 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of depreciating its computer processors, as explained in note 6 to the financial statements, on a basis consistent with that of the preceding year.

Thorne, Ernst & Whinney

May 26, 1989

FINANCIAL STATEMENTS

BALANCE SHEET (expressed in thousands)

ASSETS	As at March 31 1989	1988 (note 6)
CURRENT ASSETS		
Cash	$ 916	$ 456
Accounts Receivable	10,523	5,245
Prepaid expenses	1,276	482
	12,715	6,183
FIXED ASSETS (notes 1 and 7)		
Land	4,600	6,917
Building	27,689	31,659
Computer and ancillary equipment	52,271	37,726
Furniture and fixtures	1,957	1,938
Leasehold improvements	188	174
	86,705	78,414
Accumulated depreciation and amortization	35,072	23,707
	51,633	54,707
OTHER ASSETS		
Deferred bond discount and issue costs	107	151
	$ 64,455	$ 61,041
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES		
Notes payable, Province of British Columbia (note 3)	$ 3,990	$ 8,989
Accounts payable and accrued liabilities	13,027	6,558
Deferred revenue	345	553
Current portion of long-term debt (note 4)		
Lease capitalization	288	451
Other	929	929
Contractual liability for computer and ancillary equipment	3,791	547
	22,370	18,027
LONG-TERM DEBT (note 4)		
Lease capitalization	–	218
Other	35,112	36,593
	35,112	36,811
RETAINED EARNINGS (note 10)	6,973	6,203
	$ 64,455	$ 61,041

Commitments (note 11) Contingency (note 13)

APPROVED BY THE BOARD:

Director

Director

STATEMENT OF INCOME AND RETAINED EARNINGS (expressed in thousands)

	Year ended March 31	
	1989	1988
		(note 6)
Revenue		
Telecommunications (note 5)	$ 50,535	$ 8,118
Processing	32,305	28,284
Labour	20,378	17,781
Interest and other	969	721
	104,187	54,904
Expenses (note 5)		
Employee	27,372	23,011
Facilities management fees (note 8)	3,820	3,781
Administrative and general	5,680	4,703
Equipment rental and maintenance	47,556	7,550
Depreciation and amortization (note 6)	11,494	10,130
Interest (note 4)	969	1,427
	96,891	50,602
Income before net building operating costs and contribution from the Province of British Columbia	7,296	4,302
Net building operating costs	(3,911)	(4,345)
Contribution from the Province of British Columbia (note 9)	3,800	3,800
Income before extraordinary item	7,185	3,757
Extraordinary item		
Write-down of land, building and building equipment to appraised value (note 7)	(6,415)	–
NET INCOME (note 10)	770	3,757
Retained earnings at beginning of year, as restated (note 6)	6,203	2,446
RETAINED EARNINGS AT END OF YEAR	$ 6,973	$ 6,203

STATEMENT OF CHANGES IN FINANCIAL POSITION (expressed in thousands)

	Year ended March 31 1989	1988 (note 6)
CASH PROVIDED BY (USED FOR):		
OPERATIONS		
Net income	$ 770	$ 3,757
Items not involving cash		
Depreciation and amortization	12,468	10,936
Deferred bond discount and issue costs	44	45
Gain on disposal of fixed assets	(354)	(193)
Write-down of land, building and building equipment	6,415	–
Change in non-cash operating working capital	187	(810)
	19,530	13,735
FINANCING		
Long-term debt reductions	(1,862)	(2,461)
Short-term borrowings, net of repayments	(4,999)	4,517
Change in contractual liability for computer and ancillary equipment	3,244	(9,361)
	(3,617)	(7,305)
INVESTMENTS		
Additions to fixed assets	(16,091)	(7,028)
Proceeds from disposal of fixed assets	638	820
	(15,453)	(6,208)
INCREASE IN CASH POSITION	460	222
Cash at beginning of year	456	234
CASH AT END OF YEAR	$ 916	$ 456

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 1989

GENERAL

British Columbia Systems Corporation, incorporated as a Crown Corporation of the Province of British Columbia under the System Act R.S.B.C. 1979, has a mandate to advance the effective and efficient use of information systems in the British Columbia public sector. As a service organization within government, British Columbia Systems Corporation provides shared computer processing, data and voice communication and selected professional services on a competitive basis. In 1988/89, the Corporation received 90% of its revenues from Provincial Government Ministries, with the balance from other government entities.

On October 23, 1987, the Government of British Columbia announced plans to offer all or part of the Corporation for sale to the private sector. On November 21, 1988, the Government decided not to proceed with the privatization of British Columbia Systems Corporation, and any attendant costs are reflected in the current year.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STATEMENT PRESENTATION

As prescribed by Section 9(6) of the System Act, the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles.

ACCRUAL ACCOUNTING

The accrual method of accounting is used in the preparation of these financial statements. Accordingly, revenues are recorded in the period they are earned and expenditures are recorded in the period they are incurred.

FIXED ASSETS

The Corporation leases some of its computer equipment. Certain of these leases, however, transfer the benefits and risks incident to ownership to the Corporation. In such cases, as more fully described in notes 1 and 4, the leases have been capitalized.

Fixed assets are recorded at cost with the exception of the land, building and building equipment, which are recorded at appraised value plus subsequent additions at cost.

Fixed assets are depreciated and amortized over their estimated useful lives as follows:

Building	Over forty years on a straight-line basis
Building equipment	Over twenty years on a straight-line basis
Computer processors	Over terms up to four years on a straight-line basis (note 6)
Other computer and ancillary equipment	Over terms up to three years on a straight-line basis
Furniture and fixtures	Over ten years on a straight-line basis
Leasehold improvements	Over terms of leases on a straight-line basis

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 1989

REVENUE RECOGNITION

Revenue from resource billing is recognized as the services are performed. Revenue from fixed price contracts is recognized over the terms of the respective contracts.

CORPORATE INCOME TAXES

The Corporation is exempt from Federal and Provincial corporate income taxes.

SINKING FUNDS

Payments made to sinking funds with respect to retirement provisions of the sinking fund bonds and debentures are netted against long-term debt until such time as the bonds or debentures are redeemed and cancelled. Interest earned on the sinking funds is treated as interest income with a corresponding increase in the sinking funds.

AMORTIZATION OF OTHER ASSETS

Discount and issue costs relating to the Province of British Columbia bond Series BCSC-M are deferred and amortized on a straight-line basis over the term of the bond.

1. FIXED ASSETS
   (a) During the year, the Corporation acquired fixed assets totalling $16,091,000 (computer and ancillary equipment – $15,915,000). The Corporation also disposed of fixed assets with a gross book value of $1,410,000 (computer and ancillary equipment – $1,395,000).
   (b) Included in fixed assets is computer equipment arising from the capitalization of certain leases at a cost of $637,000 (1987/88 – $1,254,000). The related accumulated depreciation amounts to $444,000 (1987/88 – $778,000).
2. BORROWING AUTHORITY
   Pursuant to Section 8(6) of the System Act, the Corporation may be advanced or borrow up to $65,000,000. In computing borrowings, the aggregate net rentals payable by the Corporation under leases of personal property for a term exceeding one year shall be excluded.
3. NOTES PAYABLE, PROVINCE OF BRITISH COLUMBIA
   These consist of short-term notes bearing interest at rates ranging from 11.99% to 12.26% and maturing at various dates to July 31, 1989.

4. LONG-TERM DEBT

(a) Lease capitalization

The minimum annual contractual obligations with respect to capitalized leases are as follows:

1989/90	$ 305,314
Less imputed interest at an average annual rate of 13.75%	17,344
Capitalized lease obligations	287,970
Less current portion	287,970
Long-term portion	$ –

(b) Other

	Interest rate	Maturity date	Amount
Canada Pension Plan debentures			
Series 1	15.69%	June 2001	$14,007,000
Series 2	16.10%	March 2002	12,500,000
Province of British Columbia bond Series BCSC-M	9.00%	August 1991	16,000,000
			42,507,000
Less sinking funds on deposit with the Minister of Finance for British Columbia (1987/88 – $4,985,000)			6,466,000
			36,041,000
Less current portion			929,000
Long-term portion			$35,112,000

Mandatory sinking fund requirements in respect of the above debt for each of the next five years and thereafter are as follows:

	CPP S-1 & 2	Bond BCSC-M	Total
1989/90	$ 579,000	$ 350,000	$ 929,000
1990/91	579,000	350,000	929,000
1991/92	579,000	14,522,000	15,101,000
1992/93	579,000	–	579,000
1993/94	579,000	–	579,000
Thereafter	17,924,000	–	17,924,000
	$20,819,000	$15,222,000	$36,041,000

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 1989

The Province of British Columbia has guaranteed the payment of principal and interest on all long-term debt, with the exception of capitalized leases as in (a) above, issued by the Corporation.

(c) Interest expense

In 1988/89 the Corporation incurred interest expense of $5,759,000 on long-term debt and $491,000 on short-term debt. Of these amounts, $5,281,000 was allocated to building costs and $969,000 to the financing of the current operations.

5. TELECOMMUNICATIONS

During the year the Corporation had the responsibility for the coordination and management of telecommunication services under a contract with the Provincial Government. Included in the operations for the year ended March 31, 1989 are revenues of $39 million and expenses which comprise $37 million in equipment rental and maintenance and $2 million in employee and administrative expenses.

Subsequent to the year end the Corporation entered into an agreement with the Provincial Government by which the Corporation acquired the title to certain telecommunication equipment owned by the Provincial Government and assumed all of the obligations with respect to such equipment.

6. CHANGE IN ACCOUNTING POLICY

In 1988/89 the Corporation retroactively changed its method of depreciating its computer processors from the annuity method to the straight-line method.

The financial statements for the year ended March 31, 1989 have been prepared on the new basis and comparative figures for the year ended March 31, 1988 have been restated to reflect the change. This change decreased earnings in the current year by $212,000 and 1987/88 by $474,000 and decreased earnings prior to 1987/88 by $131,000.

7. EXTRAORDINARY ITEM

Effective March 31, 1989, the Corporation decided to write down the carrying value of the land, building and building equipment to appraised value (from $33,115,000 to $26,700,000). The appraisal was prepared by B. McConnell & Associates Ltd. on January 18, 1989. The appraised value is based on a combination of the income capitalization and the cost summation methods. This decision resulted in a reduction of $6,415,000 in the carrying value of these assets and in net income for the current year.

8. FACILITIES MANAGEMENT CONTRACT
On October 1, 1988, the Corporation agreed to a one-year extension of the Facilities Management Contract. Negotiations on a further extension of the contract term after September 30, 1989 are currently in process.

9. CONTRIBUTION FROM THE PROVINCE OF BRITISH COLUMBIA
In 1987/88, the Province of British Columbia agreed to provide assistance of $3.8 million per annum toward the costs of the building incurred by the Corporation. This assistance will terminate March 31, 2002.

10. NET INCOME
Pursuant to Section 8(5) of the System Act, the Lieutenant-Governor in Council may, each fiscal year, on the recommendation of the Minister of Finance, direct the transfer to the Government of all or part of the net income for the current year or for previous years to the extent not previously so transferred.

11. LEASE COMMITMENTS
The Corporation leases some of its premises and computer equipment for periods of up to five years.

The minimum annual contractual obligations of non-cancellable leases are as follows (excluding amounts relating to capitalized leases):

1989/90	$202,000
1990/91	165,000
1991/92	33,000

12. PENSION AND SUPERANNUATION PLANS
Until the Corporation establishes a pension or superannuation plan, the Public Service Superannuation Act applies to the Corporation and its officers and employees. The Corporation is obliged to contribute to the Public Service Superannuation Fund.

13. CONTINGENCY
(a) The Corporation is obligated under the Facilities Management Contract (note 8) to cover certain employee termination costs should the contract not be renewed. The Corporation is unable to determine the extent of the liability, if any, which may result from this obligation. Should a liability arise in the future, the expense will be charged to income in the period in which the settlement occurs.
(b) The current year includes a settlement of claims by the Corporation in respect of management remuneration matters pertaining to prior years.

14. COMPARATIVE FIGURES
Certain comparative figures have been reclassified to conform with the method of presentation adopted in the current fiscal year.